

STATE WATER RESOURCES CONTROL BOARD

CALIFORNIA ENVIRONMENTAL PROTECTION AGENCY

STATE OF CALIFORNIA CLEAN WATER STATE REVOLVING FUND FINAL INTENDED USE PLAN FOR STATE FISCAL YEAR 2006/2007



PREPARED BY: The Division of Financial Assistance
ADOPTED BY: State Water Resources Control Board on May 1, 2007
By Resolution No. 2007-0020

I. INTRODUCTION

The State Water Resources Control Board (State Water Board) submits this Intended Use Plan (IUP) to the United States Environmental Protection Agency (EPA) to meet the requirements of Section 606 (c) of the Federal Clean Water Act and §35.3150 of Title 40 of the Code of Federal Regulations (CFR).

The IUP serves as the planning document for explaining how funds available to the Clean Water State Revolving Fund (CWSRF) will be used during the fiscal year. The State Fiscal Year (SFY) 2006/2007 IUP identifies the forecasted binding loan commitments and disbursement schedules for all available funds.

The State Water Board intends to continue implementation of California's CWSRF loan program as outlined in the State Water Board's *Policy for Implementing the State Revolving Fund for Construction of Wastewater Treatment Facilities* (CWSRF Policy) last amended on September 22, 2005.

II. PROJECT SPECIFIC INFORMATION

The State Water Board has prepared detailed tables to illustrate the operation of the CWSRF program for SFY 2006/2007. This information is summarized in the following tables:

Table 1: SUMMARY OF PROJECTED SOURCES AND USES FOR CWSRF FUNDS
IN SFY 2006/2007

Table 2: CWSRF CASH FLOW MODEL

Table 3: PROJECTED COMMITMENTS FOR SFY 2006/2007

Table 4: PAYMENT SCHEDULE FOR 2007 CAPITALIZATION GRANT

III. LONG AND SHORT-TERM GOALS

A. Long-Term Goals

- 1) To achieve statewide compliance with water quality objectives and maximize the environmental benefits resulting from CWSRF funded projects.
- 2) To bring Publicly-Owned Treatment Works into compliance with federal requirements.
- 3) To perpetuate and expand the CWSRF.
- 4) To maximize the ability of the CWSRF to assist local government in constructing needed water quality control facilities.
- 5) To provide assistance for implementation of the State Water Board's Nonpoint Source Management Plan.
- 6) To maintain at least an 80 percent rate of loan issuance in SFY 2006/2007 to comply with EPA directives.

- 7) To establish a fee supported program that is self-funding.

B. Short-Term Goals

- 1) Apply for and receive the FFY 2007 CWSRF Title VI Allotment of \$76,546,503 within the first year of the allotment period and apply for and receive \$16,245,207 in carryover funds from the FFY 2006 CWSRF Title VI Allotment.
- 2) To fund projects in SFY 2006/2007 that will enable local agencies to abate public health and water pollution problems, and that will reduce or abate nonpoint source pollution.
- 3) The State Water Board agrees to complete the one-page worksheet for all binding commitments per EPA Order 5700.7 and agrees to include a summary of the environmental benefits worksheets in the Annual Report.
- 4) To utilize the CWSRF program in conjunction with the State Water Board's Small Community Wastewater Grant (SCWG) Program to fully leverage available grants funds.
- 5) Prepare for the issuance of a second series of bonds to further leverage the CWSRF program and continue a higher rate of loan commitments.
- 6) To further expand the Loans and Grants Tracking System to include tracking of environmental benefits.
- 7) Complete closeout of previous Capitalization Grants.

IV. RELATIONSHIP BETWEEN THE CWSRF AND OTHER FINANCIAL ASSISTANCE PROGRAMS

The State Water Board administers additional programs that provide financial assistance for construction of wastewater treatment facilities and nonpoint source projects. The CWSRF program is often used in conjunction with other programs where multiple sources of funding are needed to ensure affordability of the project. Some examples are:

- A. The State funded the SCWG Program, which provides grant funding for small, financially disadvantaged communities with a population of 20,000 or less. By Resolution No. 2004-0038, adopted June 17, 2004, the State Water Board approved the SCWG Guidelines, determined financial hardship to mean a community with a median household income (MHI) of less than 80 percent of the Statewide MHI, and established the maximum grant for any project or agency at \$2 million. The State may provide loan assistance from the CWSRF for the local share of these State grant funded projects. This program received a total of approximately \$50 million from the Watershed, Clean Beaches, Water Quality Act of 2002 and the Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002. The funding of projects will continue until all of these funds are committed.

- B. The State Water Board is authorized to administer approximately \$42 million in grant funds from the Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 for the construction of water recycling facilities. These funds, and any funds from previous State Bond Laws, will provide loans and grants for facilities planning, design, and construction of water recycling projects, and water recycling research and demonstration projects. The Water Recycling Funding Program Guidelines were adopted by the State Water Board on October 21, 2004.
- C. The Clean Beaches Program received \$46 million from the Watershed, Clean Beaches, Water Quality Act of 2002 for projects that restore and protect the water quality and environment of coastal waters, estuaries, bays, and near shore waters. Improvements to existing sewer collection systems and septic tanks are among the eligible types of projects that can be funded. Grants not to exceed \$5 million per project can be awarded to public agencies and nonprofit organizations.
- D. The 2005-06 Consolidated Grants integrates and coordinates related grant programs for watershed protection, water management, reduction of agricultural runoff, protection of drinking water, reduction of urban storm water pollution, and non-point source pollution control. Approximately \$143 million is being made available from six interrelated grant programs. Consolidation of these grants reduces application efforts and better integrates program goals with our partner agencies, which include the US EPA, CALFED, Coastal Commission, Coastal Conservancy, Department of Water Resources, Department of Fish and Game, Resources Agency, and other related agencies. The 2005-06 Consolidated Grants are funded from Proposition 40, Proposition 50, and federal appropriations.
- E. The Integrated Regional Water Management (IRWM) Grant Program, funded by Proposition 50, Chapter 8, provides approximately \$380 million for competitive grants for projects to protect communities from drought, protect and improve water quality, and improve local water security by reducing dependence on imported water. The IRWM Program is administered jointly by the State Water Board and the Department of Water Resources. The IRWM Grant Program provides two types of grants. Planning Grants are intended to foster development or completion of IRWM Plans, or their components, to enhance regional planning efforts, and to assist more applicants to become eligible for Implementation Grant funding. Implementation Grants will fund projects that meet one or more of the program objectives of protecting communities from drought, protecting and improving water quality, and improving local water security by reducing dependence on imported water.

V. PROGRAM CHANGES IMPLEMENTED

The following program changes have been made by the State Water Board that are not covered in the existing Operating Agreement signed by the State Water Board in June 2002.

A. CWSRF Loan Program Funding Criteria

On June 7, 2006, the State Water Board approved Resolution No. 2006-0037 adopting the 2006/2007 CWSRF Priority List. This Resolution permits major sewer rehabilitation projects to be eligible for loan assistance where they are necessary to correct documented public health or water quality problems.

B. The State Environmental Review Process (SERP) is outlined in the Operating Agreement and the CWSRF Policy. The SERP included as Appendix E of the current CWSRF Policy was updated September 2004. Environmental reviews are consistent with provisions of the California Environmental Quality Act and the National Environmental Policy Act.**VI. INFORMATION ON THE CWSRF ACTIVITIES TO BE SUPPORTED**

For SFY 2006/2007, the State Water Board proposes to provide CWSRF loan assistance as follows:

A. Category I -- Secondary Treatment; Category II -- Advanced Treatment; Category IIIA -- I/I Correction; Category IIIB -- Major Sewer System Rehabilitation; Category IVA -- New Collection Systems; Category IVB -- New Interceptors and Appurtenances; Category V -- Combined Sewer Overflow; Category VI -- Storm Water Pollution Control Projects; and Category VII -- Nonpoint Source Pollution Control and Estuary Enhancement Programs and Projects will be funded by the CWSRF. Included in these categories will be water recycling projects.**B. Types of assistance to be provided:**

There are two types of loans available in the CWSRF program. (1) The basic loan program provides for loans at one-half the interest rate of the most recent sale of State General Obligation Bonds and (2) the Local Match loan program offers discounted loans where the local agency contributes the state match share for its project and pays no additional interest. All loans will be completely amortized within 20 years of project completion. Some of the loans issued in SFY 2006/2007 may involve the refinancing of existing local debt.

C. State Water Board policies on implementation of the CWSRF Loan Program:

The State Water Board's CWSRF Policy contains detailed information on the requirements for obtaining a CWSRF loan for wastewater treatment and water recycling projects. Additional policies or regulations may be developed for inclusion in the Operating Agreement to cover administration of loans for nonpoint source, stormwater pollution control, and estuary enhancement projects and activities. Program details necessary to implement the Local Match loan program were adopted by the State Water Board on January 18,

1996, and amended on June 18, 1998. The latest version of the CWSRF Policy was adopted on September 22, 2005.

VII. OTHER FEDERAL AND STATE ASSISTANCE

As noted above, the Watershed, Clean Beaches, Water Quality Act of 2002 and the Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 provided funding for various programs to be implemented by the State Water Board, including the SCWG Program, the Water Recycling Funding Program, and the Clean Beaches Program.

VIII. ASSURANCES, PROCEDURES, AND PROPOSALS

A. Environmental Review Certification

The SERP is outlined in the Operating Agreement and the CWSRF Policy. The SERP will encompass environmental reviews consistent with provisions of the California Environmental Quality Act and the National Environmental Policy Act.

B. Project Approval Procedures

The State Water Board approves projects in a two-step process. The first approval occurs at the completion of facilities planning when the State Water Board can make a preliminary loan commitment from available funds. On January 18, 2007, the State Water Board adopted Resolution 2007-0004, reaffirming the delegation of authority to the Executive Director, the Chief Deputy Director, or the Deputy Director of the Division of Financial Assistance (Division) of the State Water Board to make preliminary loan commitments for routine and non-controversial projects. Table 1 summarizes the funds added to the CWSRF in SFY 2006/2007 for approved projects.

The second step is the issuance of binding loan commitments (signed loan agreements) after the final plans and specifications have been approved.

C. Binding Loan Commitment Certification

The State Water Board certifies that it will enter into binding loan commitments equal to at least 120 percent of the cumulative quarterly Capitalization Grant Payment Schedule of increases within one year after receipt of each increase. Table 3 contains a list of projects approved and projected to be approved by the State Water Board that should proceed to binding loan commitment in SFY 2006/2007.

D. Expeditious and Timely Expenditure Certifications

The State Water Board certifies that it will expend all funds in the CWSRF in an expeditious and timely manner.

E. First Use of Enforceable Requirements Certification

California has satisfied the First Use Requirement.

F. Transfer of Construction Management Assistance Grant (CMAG)

No CMAG funds provided under Section 205 (g) of the Act will be transferred to the CWSRF for administration. The State will administer the loan program using the allowed four percent of the FFY 2006 Capitalization Grant, plus any administration funds unused from previous allotments.

G. Loan Defaults

California will make every effort to assure that loan recipients repay their loans. In the event of any defaults, the Division will have our Revenue Program Specialist review the agency's user charges and budget and make recommendations for assuring continued loan repayments. The State Water Board will also take whatever other steps are required, including judicial action, to assure timely repayments of loan obligations. As a last resort, California will use the intercept provision in State law to recover lost funds should the State Water Board fail to resolve the default.

H. State Match

The State Match requirement for the FFY 2007 Capitalization Grant will be met by using funds from the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Prop. 84) and the Local Match program. The total match amount for the FFY 2007 Capitalization Grant Application is estimated to be \$18,558,342.

I. Capitalization Grant Payment Schedule

Table 4 contains the proposed Capitalization Grant Payment Schedules for increasing the ceiling amount for the FFY 2007 grant.

IX. METHOD AND CRITERIA FOR THE DISTRIBUTION OF CWSRF FUNDS

A. Criteria and method for determining the types of funding distribution to be provided.

The Division uses readiness to proceed to determine which projects will receive approval. Projects scheduled for funding in SFY 2006/2007 have previously received, or are projected to receive, approval from the State Water Board, or the Deputy Director of the Division. A total of about \$267 million in new funds (See Table 1) will be added to the CWSRF Program in SFY 2006/2007. Table 3 contains the estimated project-by-project schedules for issuing the binding loan commitments using all the available funds. The adopted SFY 2006/2007 Priority List identifies projects which will compete for loan assistance in SFY 2006/2007.

B. Criteria and method for selecting specific projects to be funded.

Projects to be funded in SFY 2006/2007 are determined in accordance with the State Water Board's CWSRF Project Priority System, which has been approved by EPA. The State Priority System is based on public health and water quality considerations as described in the CWSRF Policy. Included in the State Priority System are bypass provisions to allow other projects to be funded if anticipated

local agency schedules are not met. The fundable portion of the list for SFY 2006/2007 will include Priority Classes A, B, C, and D projects which have received State Water Board approval and which are expected to proceed to construction in SFY 2006/2007. Loans will be issued only to projects on the fundable portion of the list.

X. PERPETUATION OF THE CWSRF

The State Water Board will charge an interest rate equal to one-half the rate of the most recent sale of State General Obligation Bonds. For communities participating in the Local Match program, the local match contribution has an effective interest rate of approximately 1.8 percent while repayments of the loan are based on an annual interest rate of 0.0 percent. The State Water Board will also take whatever actions are necessary to recover loan funds should a loan recipient default on its loan repayments. Refer to the Operating Agreement for a more detailed discussion of the specific actions.

XI. SCHEDULE

The schedule for the public review and comment process on the SFY 2006/2007 IUP is:

- | | |
|------------------|---|
| ✓ April 20, 2007 | SFY 2006/2007 IUP noticed for State Water Board Meeting |
| ✓ May 1, 2007 | State Water Board Adoption of SFY 2006/2007 IUP |
| ✓ May 2, 2007 | Submittal of SFY 2006/2007 IUP to EPA for Approval |
| ✓ Jun 23, 2007 | EPA Approval of SFY 2006/2007 IUP |

XII. ADMINISTRATIVE COSTS

Based on the expected appropriation for FFY 2007 and the carryover funds from FFY 2006, California will apply for a grant of \$92,791,710. Up to four percent of the grant, or \$3,711,668, can be used from the CWSRF for administration.

XIII. MARKET LOAN RATE

California will issue loans at one-half the interest rate on the most recent sale of State General Obligation Bonds or discounted Local Match loans. These rates will always be below the market rate. Because of this fact, a market rate survey will not be conducted.

TABLE 1

SUMMARY OF PROJECTED SOURCES AND USES
FOR CWSRF FUNDS IN SFY 2006/2007

STATE REVOLVING FUND
SUMMARY OF PROJECTED SOURCES AND USES
FOR CWSRF FUNDS IN SFY 2006-07
TABLE 1

Sources	Amount
2006 Capitalization Grant	\$16,245,207
2007 Capitalization Grant	\$76,546,503
Anticipated Repayments	\$177,074,793
Estimated CWSRF Account interest	\$17,000,000
State Match	\$18,558,342
Total Sources	\$305,424,845

Uses	Amount
Project Administration	\$4,500,000
Debt Service on 2002 Revenue Bonds	\$33,439,354
Total Uses	\$37,939,354

Available	Amount
Total Funds Added to CWSRF Program in SFY 2006-07	\$267,485,491

TABLE 2

CWSRF CASH FLOW MODEL (SHOWS CWSRF BALANCE AS OF 3/9/07)

Table 2 – CWSRF Cash Flow Model

Last updated with data form LGTS: 3/9/2007

	SFY 2006-07	SFY 2007-08	SFY 2008-09	SFY 2009-10	SFY 2010-11
Beginning Cash Balance (as of July 1)	\$360,989,986	\$259,321,482	\$403,962,036	\$463,090,202	\$572,715,520
Undrawn Federal Funds as of July 1	197,363,946				
Set-aside for Board mandated reserve	(25,000,000)				
Beginning of Year Funds Available	533,353,932	259,321,482	403,962,036	463,090,202	572,715,520
Repayments from CWSRF loans (on all disbursed funds)	\$177,074,793	\$181,755,335	\$189,132,165	\$187,430,199	\$187,427,816
Estimated Repayments from New Loans			\$2,623,169	\$14,325,135	\$24,327,519
Subtotal estimated repayments:	\$177,074,793	\$181,755,335	\$191,755,335	\$201,755,335	\$211,755,335
Net Proceeds from Revenue Bonds					
Debt Service on 2002 Revenue Bonds	(\$33,439,354)	(\$33,357,579)	(\$31,893,104)	(\$31,758,441)	(\$31,456,429)
Federal Cap Grants (less admin. allow)	\$44,528,521	\$76,546,503			
State G.O. Bond proceeds (less state admin. match)	(\$606,678)	\$76,000,000			
Local Match Credits	\$34,306,721	\$8,549,850	\$4,610,358	\$4,166,750	\$4,166,750
Estimated SMIF interest + Linked Deposit interest	\$17,000,000	\$12,000,000	\$7,000,000	\$4,000,000	\$2,000,000
Logged disbursement requests thru Run Date	(\$197,602,883)	\$0	\$0	\$0	\$0
Remaining disbursements for existing loan contracts	(\$315,293,570)	(\$189,387,093)	(\$112,344,423)	(\$68,538,325)	(\$25,964,254)
Subtotal estimated disbursements	(\$512,896,453)	(\$189,387,093)	(\$112,344,423)	(\$68,538,325)	(\$25,964,254)
Ending of Year Cash Balance	\$259,321,482	\$403,962,036	\$463,090,202	\$572,715,520	\$733,216,921

TABLE 3

PROJECTED COMMITMENTS
FOR SFY 2006/2007

**STATE REVOLVING FUND
PROJECTED BINDING LOAN COMMITMENTS
FOR SFY 2006/2007
TABLE 3**

Agency	Project ID	Amount	Approved Date	NPDES Permit #
San Diego, City of	4786-110	\$4,761,908	29-Nov-06	CA0107409
The Conservation Fund	6090-110	\$25,000,000	25-Oct-06	N/A
Los Angeles County Sanitation District	4783-110	\$7,175,994	04-Dec-06	N/A
Los Angeles County Sanitation District	4783-210	\$12,562,210	04-Dec-06	N/A
Los Angeles County Sanitation District	4783-310	\$11,581,453	04-Dec-06	N/A
Nevada County Sanitation District #1	4968-110	\$18,964,071	16-Jan-07	CA0081612
Nevada County Sanitation District #1	4969-110	\$12,122,824	26-Jan-07	CA0077828
Yucaipa Valley Water District	4200-110	\$44,748,356	12-Sep-06	CA0105619
Petaluma, City of	4693-110	\$125,964,254	25-Aug-06	CA0037810
La Mesa, City of	4729-110	\$14,500,000	31-Aug-06	CA0107409*
Hayward, City of	4825-110	\$54,550,018	27-Jul-06	CA0037869
North Marin Water District	4844-110	\$4,264,545	03-Aug-06	CA0037958
Los Angeles, City of	4493-110	\$82,898,684	Tentative	N/A
Rosamond CSD	4148-110	\$8,300,000	Tentative	N/A
East Bay Municipal Utility District	4303-110	\$20,100,000	Tentative	N/A
San Diego, City of	4540-110	\$13,281,530	Tentative	N/A
Crescent City, City of	4699-110	\$19,600,000	Tentative	CA0022756
Los Angeles County Sanitation District	4701-110	\$44,500,000	Tentative	N/A
Sonoma Valley County Sanitation District	4823-110	\$6,996,831	Tentative	CA0000228
Lompoc, City of	4829-110	\$91,787,186	Tentative	CA0048127
Santa Margarita Water District	4845-210	\$6,170,000	Tentative	N/A
Inland Empire Utilities Agency	4899-110	\$14,752,206	Tentative	CA0105279
Nevada County Sanitation District #1	4967-110	\$3,100,000	Tentative	CA0083241
Redding, City of	4971-110	\$4,360,035	Tentative	
Total		\$652,042,105		

*NPDES Permit number for City of San Diego Point Loma used

TABLE 4

PAYMENT SCHEDULE
FOR 2007 CAPITALIZATION GRANT

STATE REVOLVING FUND
PAYMENT SCHEDULE FOR 2007 CAPITALIZATION GRANT
TABLE 4

SFY		1st Quarter (Starts July 1)	2nd Quarter (Starts October 1)	3rd Quarter (Starts January 1)	4th Quarter (Starts April 1)
2007-08	Draw	\$16,000,000	\$16,000,000	\$16,000,000	\$16,000,000
	Cumulative	\$16,000,000	\$32,000,000	\$48,000,000	\$64,000,000
2008-09	Draw	\$16,000,000	\$16,000,000		
	Cumulative	\$80,000,000	\$92,791,710		